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1966 AGRICULTURAL FINANCE OUTLOOK

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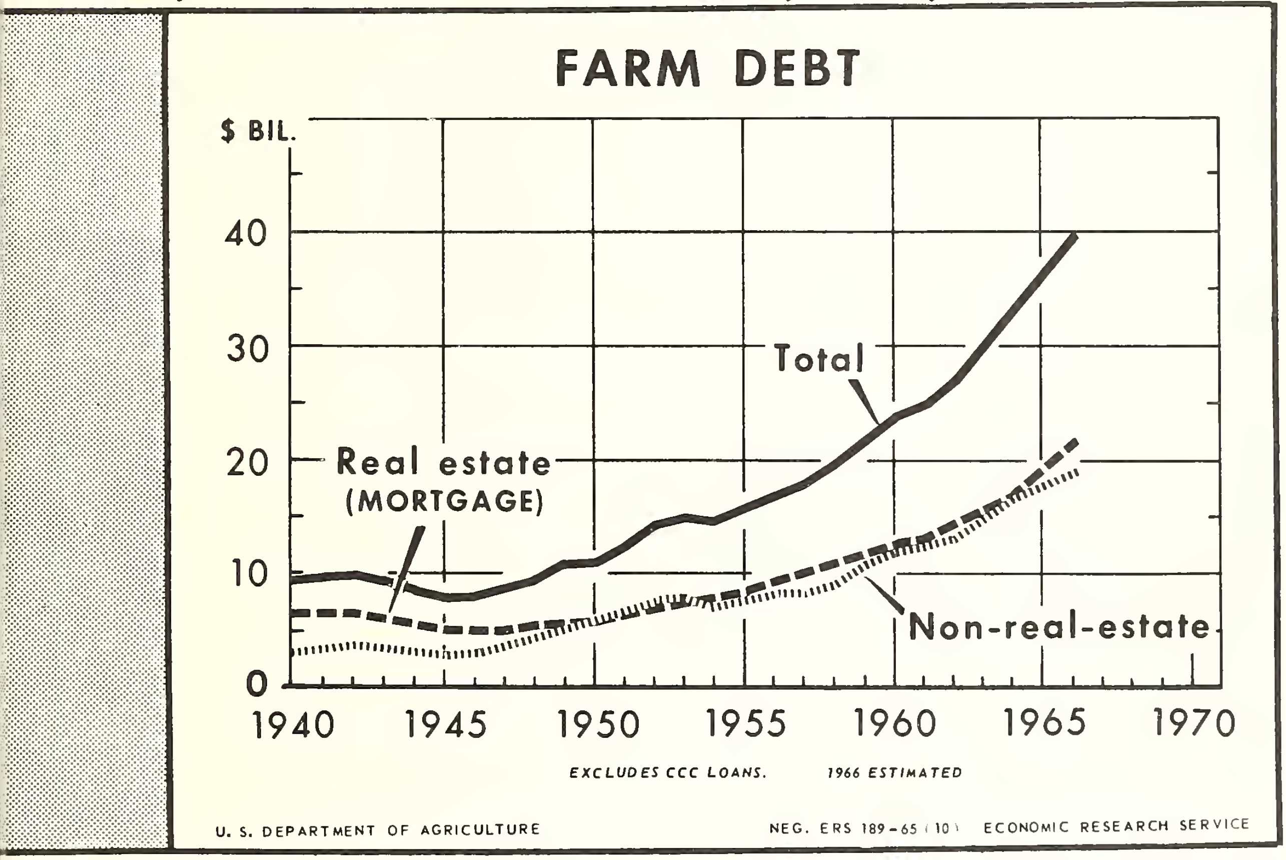

Farm debt (excluding CCC loans) increased nearly $3.5 billion in 1965. The continued expansion in debt reflects increased investments on many farms for improving efficiency and incomes.

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C O N T E N T S

This report was prepared by the Farm Production Economics Division, Economic Research Service. The report is based largely on information received during late September from the district Farm Credit banks, the State offices of the Farmers Home Administration, the agricultural economists of the Federal Reserve System, the Agricultural Committee of the American Bankers Association, the farm-mortgage departments of several life insurance companies in various parts of the United States, and from the field staff of the Farm Production Economics Division. The excellent contributions of all of these individuals is appreciated.

1966 AGRICULTURAL FINANCE OUTLOOK

Approved by Outlook and Situation Board, November 4, 1965

THE OUTLOOK FOR 1966

The farm financial situtation is stronger this fall than a year ago. Another good year for farmers is in prospect for 1966. Although prices of some products, particularly crops, will be lower next year, Government payments will be up substantially and total cash income will probably rise in 1966. Realized net farm income next year may possibly exceed by $1/4 to $1/2 billion the $14 billion estimated for this year. This level for 1965 represents a gain of more than $1 billion over 1964 and is the highest since 1952. Per capita disposable personal income of the farm population from all sources will probably be up again next year because of favorable prospects for farm income and continued opportunities for nonfarm earnings.

Farm income and the value of farm assets and equities have made large gains this year. Although farm debt appears to be increasing by a record amount the dollar increase in debt will be much less than the increase in farm asset values. Accordingly, farm equities are expected to rise substantially this year.

Collections of farm-mortgage loans have continued excellent in 1965--delinquencies and foreclosures are few. Payments of production loans are expected to be better this fall than a year ago.

Prospects for further improvement in 1966 are especially good for farmers and ranchers in the Plains and Mountain States. Feeder cattle prices have risen, and abundant summer and fall rains broke the drought that had plagued parts of that area for several years, improving the ranges and prospects for next year's crops. In contrast, potato growers face the prospect of lower prices than they received this year. Also, farmers in some areas will suffer income losses, because their late maturing crops--most of which will be sold in 1966--were damaged by wind, drought, flood, and other weather hazards.

Respondents from all parts of the country expect the uptrend in use of farm credit to continue in 1966. Further enlargement, improvement, and mechanization of farms, responsible for most of the rapid buildup of farm debt in recent years, will be stimulated by the expected improvement in farm income and continued technological development. Among specific needs mentioned by respondents in their reports this fall are credit for improved dairy facilities in the Northeast, for irrigation and restocking ranges in the Southern Plains, for land clearing and leveling in the Delta States, and for improved grain storage and handling facilities and combines with corn heads in the Corn Belt. Many respondents report that mechanization of farms will be speeded by the rising cost and difficulty of obtaining farm labor.

Increased leasing of heavy farm equipment was noted by several respondents. To the extent that farmers lease rather than buy equipment, their immediate needs for credit will be moderated, even though their annual operating costs may be increased.

A continued improvement of farm living levels was reported by most respondents. A number stated that the construction and improvement of farm homes was up sharply from earlier years.

Uneasiness about the level of farm debt appears to have diminished during recent months. Primary factors apparently are the continued excellent repayment record of most farm borrowers, the improvement of farm income this year and favorable prospects for next year, and the reassurance of the new farm program. Among other things, this program continues price and income supports for producers of feed grains, wheat, cotton, tobacco, rice, wool, and dairy products for the next 4 years.

Although some banks are reported to be nearing the limits of their lending power, supplies of loan funds for meeting farmers' increasing credit needs next year are expected to be ample. Rapidly rising time deposits are increasing the lending power of banks, and the banks of the cooperative Farm Credit System are able to obtain all the funds they need by selling their securities in the money market. Loan authorizations of the Farmers Home Administration have been increased, permitting it to serve more farmers. A number of respondents report that "point of sale" credit, extended by farm suppliers and manufacturing companies, is increasing.

Interest rates on farm-mortgage loans have averaged about the same this year as last, but some non-real-estate lenders have raised their rates. The general tendency of money market rates to increase during recent months, and the recent selective increases in rates on loans to business concerns by large city banks, suggests that 1966 may bring slightly higher interest rates on farm loans. Opinions of respondents on this point are divided, but many anticipate higher rates in 1966.

FINANCIAL DEVELOPMENTS IN 1965

In the first 9 months of 1965, total cash income from farming was more than $1-1/2 billion higher than in the corresponding months of 1964. Realized net farm income was running at an annual rate of $13.9 billion and probably will reach $14 billion for the entire year, compared with $12.9 in 1964. These income gains result largely from higher livestock prices and increased Government payments.

The value of farm assets is expected to reach $253 billion by January 1, 1966, up more than $15 billion from a year earlier (table 1). As in other years, most of this increase will be due to the continued rise in farm real estate values. However, the value of motor vehicles and machinery on farms will be up again because of the continued heavy investment by farmers in improved and larger machinery; the value of the livestock inventory will be raised by higher prices of livestock; and the value of the crop inventory will be increased by the record production of crops this year. Indications are that farmers also have increased their savings deposits and their investments in cooperatives.

Table 1.--Balance Sheet of Agriculture, Jan. 1, 1965, and estimate for Jan. 1, 1966

Item	Jan. 1, 1965 1/	Estimate for Jan. 1, 1966	Percentage change 2/
ASSETS	Billion dollars	Billion dollars	Percent
Physical assets:			
Real estate	159.4	170.0	6.6
Non-real-estate	57.3	61.4	7.3
Financial assets	21.1	21.8	3.5
Total	237.8	253.2	6.5
CLAIMS			
Liabilities:			
Real estate debt	18.9	21.1	11.8
Non-real-estate debt to--			
Commodity Credit Corporation	1.5	1.7	7.4
Other reporting and non-reporting creditors	17.1	18.3	7.1
Total	37.5	41.1	9.5
Equities	200.3	212.1	6.0

1/ Revised.
2/ Computed from unrounded data.

Although farm debt appears to be increasing by a record amount this year--about $3.6 billion--the dollar increase in farm debt will be much less than the increase in farm asset values. Accordingly, farm equities are expected to rise further by nearly $12 billion, to a total of about $212 billion at the end of this year.

Improvements in the financial situation of farmers this year probably have been greatest in the Corn Belt where livestock feeding margins and, in many places, crop growing conditions have been much better than last year (fig. 1). But great improvement also has occurred in the Plains and Mountain States as a result of better ranges and crops and higher livestock prices. Poultry producers generally have had a good year, and slightly higher prices of milk have benefited dairymen. Potato growers in Aroostook County, Me., are reported to have made an exceptionally large gain as a result of high prices for the 1964 crop they marketed this year. Much better crops this year are reported for peach growers in South Carolina, wheat growers in most of the Palouse area of Washington, and growers of other crops in many places.

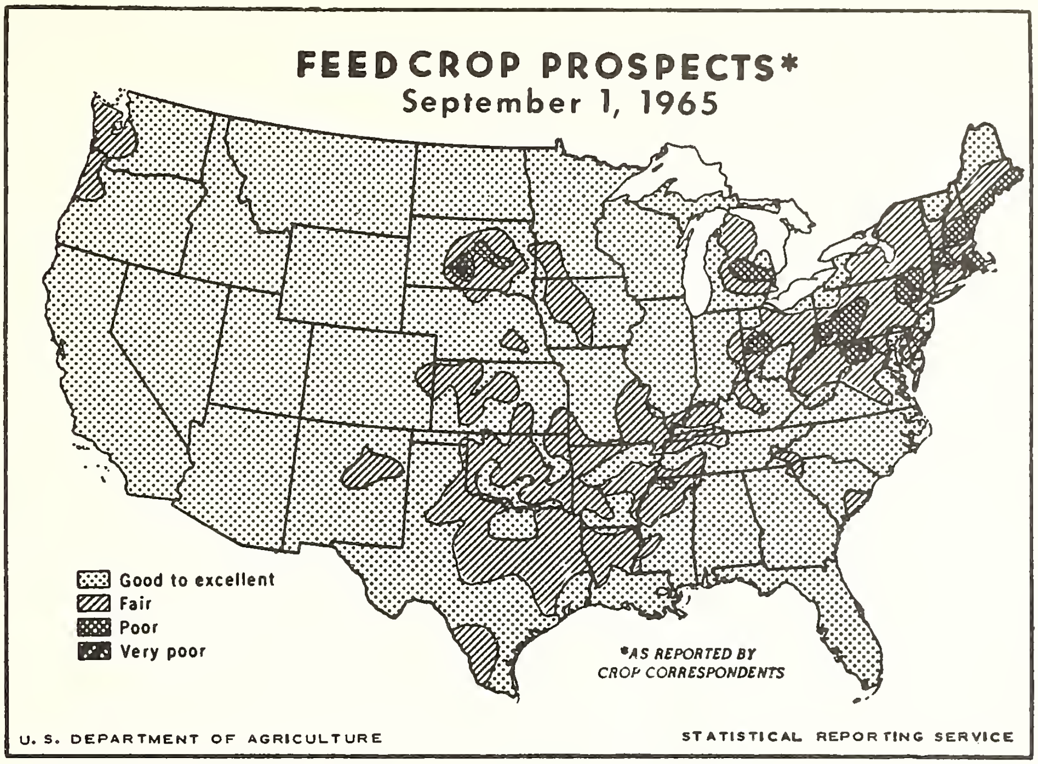
Nevertheless, many farmers have suffered severe damage to their crops and other property from hurricanes, tornadoes, freezes, flooding, drought, and other weather hazards. Moreover, rust ruined the wheat in parts of South Dakota and Montana. In some areas, production of cotton and tobacco was cut by reduced allotments or lower yields. Many farmers will have larger loan carryovers and be weaker financially as a result of these situations.

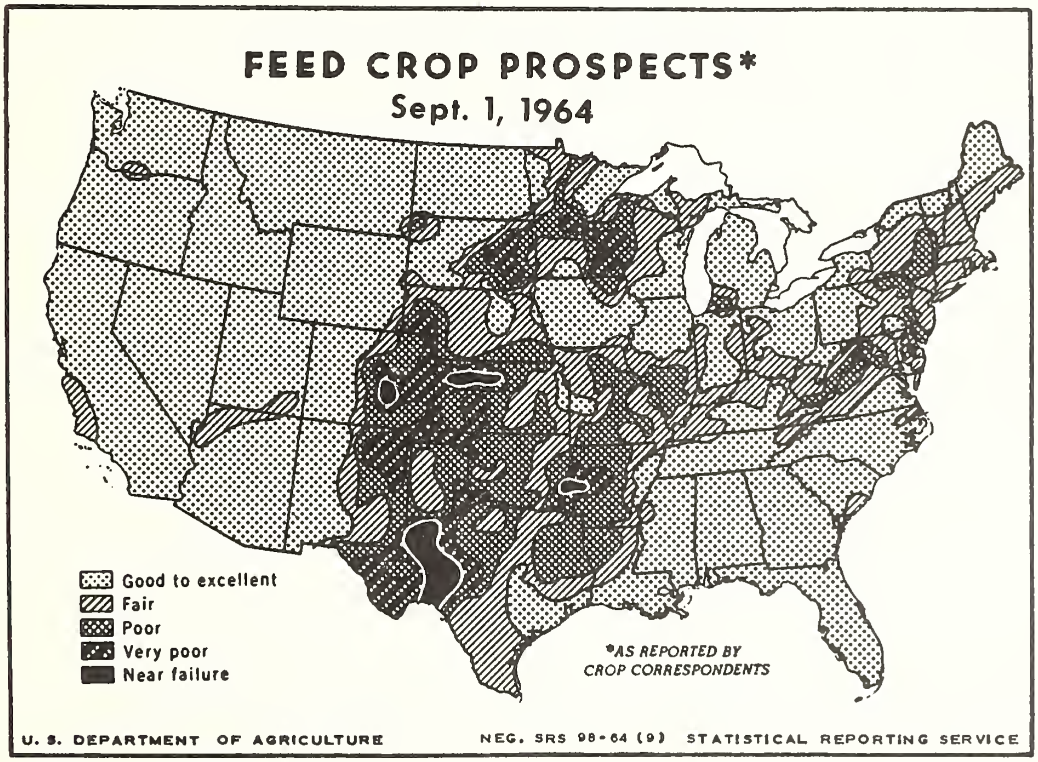
Farm debt (excluding CCC price-support loans) is expected to reach $39.4 billion by January 1, 1966--up $3.4 billion from a year earlier. During the last 5 years, farm debt has risen by approximately 60 percent--much more (in percent) than farm income or the value of farm assets have increased.

Because of the concern that has developed about the rapid increase of farm debt, outlook respondents associated with financial institutions were asked, both last fall and this fall, to give their impressions of the extent to which farmers were burdensomely indebted. In its mid-1965 survey of rural banks, the American Bankers Association requested similar information from its panel of reporting banks. In assesssing the debt situations of their borrowers the bankers were instructed to take into consideration all of the farmers' debts, not only their debts to banks.

The approximately 800 bankers who replied to the midyear questionnaire of the American Bankers Association estimated that, on average, about 70 percent of their farm borrowers would be able to meet their debt payments within the next 12 months "fairly easily" and an additional fourth of their farm borrowers could make the payments required but "only with considerable difficulty." Four percent of their farm borrowers were expected to "quit their present farming operations due to financial difficulties."

Of the 4 percent of farm borrowers who were expected to discontinue farming during the year, three-fourths were estimated to have gross income of less than $10,000. Only 29 percent of those who expected to have little difficulty with their debts were estimated to have incomes this small.


FEED CROP PROSPECTS*
September 1, 1965
Good to excellent
Fair
Poor
Very poor
*AS REPORTED BY
CROP CORRESPONDENTS
U. S. DEPARTMENT OF AGRICULTURE
STATISTICAL REPORTING SERVICE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NEG. SRS 98-64 (9)
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Figure 1

The percentage of bank borrowers expected to discontinue operations because of financial difficulties appears to be somewhat greater than that implied by respondents to the Outlook questionnaire, who also were associated with financial institutions. These respondents seldom gave quantitative information but most of them reported again this year, as they did last year, that relatively few farmers had severe debt difficulties, and that those with such difficulties usually could, and often did, retire their debts by selling out on favorable terms. In general, these respondents expressed less concern than last year about the increasing size of farm loans and the rising level of farm debt. They emphasized the needs of farmers for credit to enlarge and improve their farms and acquire labor-saving facilities and equipment.

Five years ago, according to the 1960 Sample Survey of Agriculture, 23 percent of all indebted owner-operators of commercial farms had real estate debts exceeding 50 percent of the value of their land and buildings. Approximately the same percentage of all indebted farmers had total debts exceeding 7-1/2 times their net cash farm incomes. Farmers in both of these groups probably had difficulty at times carrying their debts, although most debts had been incurred to enlarge and improve the operations of borrowing farmers.

Whether the 30 percent of bank borrowers estimated in the mid-1965 ABA survey to have burdensome debts reflects some deterioration from the situation indicated by the 1960 Sample Survey of Agriculture, or whether it results from a different method of appraising the situation of borrowers, cannot be determined. Certainly some farmers go out of business each year because of debt difficulties. However, throughout the period 1960 to date, payments of farm-mortgage loans held by the major institutional lenders have been excellent. Data for production credit associations and the Farmers Home Administration indicate that payments on non-real-estate farm loans also have been well maintained.

Even though many farmers have had large debts, apparently most have been able to make the required payments. Relatively few farmers have had such severe debt difficulties that they were forced to liquidate.

A noteworthy point is that probably a third or more of all farmers (nearly 40 percent in 1960) are debt free. Thus, farmers with burdensome debts make up a much smaller proportion of all farmers than of indebted farmers.

A characteristic of our times is that the rapidly increasing amount of capital required to farm efficiently and to provide adequate family income is causing many farmers to incur large debts. Further increases in farm debt may be expected as farms become fewer, larger, and more mechanized. Many farmers adjusting to current and developing conditions cannot save at a rate necessary to meet their need for additional investment. The excellent collections and few delinquencies reported by lenders, and their general agreement that few farm borrowers are having severe debt difficulties, indicate that use of credit has enabled most farm borrowers to improve their farm incomes. This improvement of income has involved risks, but farmers who do not accept the necessary credit risks assume the alternate risk of not being able to earn an acceptable income from farming.

Basic indicators of supply and demand for farm real estate in 1965--number of sales, number of farms on the market, and number of people looking for farmland--all point to a continuation of relatively tight market conditions and further rising land values in 1966.

In the year ended March 1, 1965, the index of value per acre moved from 131 (1957-59 = 100) to 139. 1/ The total value of all farm real estate reached $159.4 billion, the equivalent of $52,000 per farm or $146 per acre. Regionally, values per farm ranged from $22,300 in the Appalachian States to $139,000 in the Pacific region. Typical Corn Belt farms averaged $50,000 to $60,000. In the Southeast, excluding Florida, per farm values ranged from $21,000 to $36,000.

Closely associated with and partly responsible for the long-term rise in land prices is the increased use of credit and a gradual liberalization of terms under which it is extended. In 1964-65, 73 percent of the reported sales of farm real estate were credit financed, and the debt incurred averaged 72 percent of the purchase price. However, as many borrowers pledged additional assets, loans by lenders averaged less than 72 percent of the value of the security they received.

Farm real estate reporters in March 1965 confirmed the increased availability of credit, indicated by the sharp increase in the volume of farm-mortgage loans made in 1964. This easing of the credit market seems to have been accomplished by increases in dollar-loan limits per acre and by adjusting appraised values for loan purposes closer to actual market values.

Reporters indicated that sellers of farm real estate continue to be the major source of credit, financing 38 percent of the total number of credit transfers in 1964-65 (table 2). Commercial banks financed 18 percent and life insurance companies 16 percent. At the regional level there was considerable variability in the relative importance of the various lenders. For example, seller financing varied from 23 percent of all credit sales in the Appalachian region to 65 percent in the Pacific region. Financing by commercial banks ranged from 6 percent of the total in the Pacific region to 46 percent in the Northeast.

The percentage of transfers for farm enlargement continued to increase in 1965 and accounted for about 54 percent of all transfers for farming purposes, 4 percentage points above a year earlier. Although the proportion of transfers for farm enlargement has more than doubled in the last 10 years, the number of these transfers has increased only slightly because of the sharp decline in the total number of farm transfers.

The rate of voluntary transfers of farm real estate in the year ended March 1965 was estimated at 28.4 per 1,000 farms, about 4 percent below the previous year. Allowing for a further decline in the number of farms, the total number of voluntary sales dropped approximately 7 percent below the 1964 level.

1/ The July farm real estate index number has been discontinued.

Table 2.--Credit-financed farm purchases: Percentage financed by specified lenders, by farm production regions, year ended Mar. 1, 1965 1/

Region	Seller	Commercial banks	Insurance companies	Federal land banks	Other lender 2/	Total
	Percent	Percent	Percent	Percent	Percent	Percent
Northeast	27	46	3	8	16	100
Lake States	47	19	12	8	14	100
Corn Belt	32	19	23	12	14	100
Northern Plains	39	10	19	15	17	100
Appalachian	23	31	9	11	26	100
Southeast	32	18	6	14	30	100
Delta States	28	11	23	6	32	100
Southern Plains	33	11	24	7	25	100
Mountain	54	4	11	10	21	100
Pacific	65	6	7	5	17	100
United States	38	18	16	10	18	100

1/ Data were obtained from Farm Real Estate Reports, March 1965.
2/ Includes sales financed by two or more lenders.

Transfers of farm real estate by foreclosure, tax sales, estate settlements, and gifts and inheritances were lower in 1964-65 than in the previous year. The rate of foreclosures and transfers to avoid foreclosures was estimated at 1.4 per 1,000 farms. Thus, fewer than 4,000 of these distress transfers occurred in 1964-65. Mostly they were voluntary assignments and open-market sales to satisfy creditors rather than actual foreclosure sales.

FARM INCOME AND EXPENDITURES

Outlook for 1966 Income. Realized net farm income in 1966 probably will exceed the $14 billion for 1965--possibly by one-fourth to one-half a billion dollars--and will be the highest since 1951. Realized gross farm income next year likely will be just over $45 billion, compared with $44-1/4 billion now in sight for this year. Farm production expenses are expected to increase again in 1966, but likely by a smaller amount than in 1965.

This outlook points to a record high average net income realized per farm, continuing the uptrend which started in 1960. Also, disposable personal income per capita of the farm population from all sources likely will rise slightly next year because of the expected rise in farm income, continued opportunities for nonfarm earnings, and a further decline in the farm population.

Cash receipts from farm marketings of livestock and livestock products likely will be higher in 1966. Receipts from farm marketings of crops are expected to decline mainly as a result of lower price supports for some crops.

However, direct Government payments to farmers will rise substantially and offset the decline in crop receipts. An increase seems probable in total cash income from farming. Current operating expenses are likely to be up slightly in 1966. Overhead costs, such as depreciation, interest, and farm real estate taxes, will probably continue increasing.

1965 Income Situation. Through September this year, cash receipts from farm marketings (excluding Alaska and Hawaii) were estimated at $26.0 billion, about $1.4 billion higher than in January-September 1964. Government payments to farmers were also running well above a year earlier. As a result, total cash income from farming for the first 9 months of 1965 was more than $1-1/2 billion above a year earlier.

Prices received by farmers in the first 9 months of this year averaged about 4 percent higher than a year earlier. Prices for livestock and livestock products averaged about 8 percent higher and crop prices averaged about 1 percent lower. The physical volume of all farm marketings was about the same this year as last. Livestock and livestock product marketings were estimated to be up slightly from a year earlier, while crop marketings changed little.

Receipts from marketings of livestock and livestock products during January-September totaled about $15.6 billion, up about $1.2 billion. Cattle prices were up about 9 percent despite a 4 percent increase in the volume of marketings. Prices may decline slightly from September levels for the rest of the year, but are expected to average above year-earlier levels. Hog prices through September were up about 30 percent, while marketings were down about 9 percent. Prices for hogs are expected to average considerably above a year earlier in the fourth quarter of this year.

Receipts from dairy marketings in the first three quarters of 1965 increased about $60 million over last year. The volume of milk sold was up about 1 percent and prices were up about 1 percent. Broiler marketings were up about 6 percent; prices were up also--about 7 percent--because of reduced competition from red meats. Prices received for eggs have been about 5 percent lower than in 1964 due to an increase in marketings.

Receipts from marketings of crops in the first 3 quarters were estimated at $10.4 billion, up about $200 million. Receipts from wheat were down some $135 million due to the lower loan rate for the 1965 crop. Wheat producers, however, are receiving payments under the 1965 Wheat Program to make up for much of this drop. Receipts from marketings of corn were down about $120 million due to a small 1964 crop which more than offset somewhat better prices. A record 1965 corn crop is indicated up about 18 percent from the drought reduced 1964 crop. Producers of feed crops have received supplemental payments under the Feed Grain Program, helping to bolster incomes this year.

Receipts from farm marketings of cotton through September were estimated down slightly from last year due mainly to a lag in ginnings and also a drop in price for the 1965 crop. However, cotton growers who held their acreage to no more than their domestic allotment will receive supplementary payments this year totaling about $70 million compared to $39 million in 1964. Tobacco receipts through September were estimated down about $55 million from

last year due mainly to a sharp reduction in the volume of marketings. Receipts from soybeans were up about $150 million, as soybean prices averaged about 10 percent higher despite slightly increased marketings. The 1965 soybean crop is expected to exceed last year's record crop by 23 percent.

Receipts from potatoes were up sharply in the first 9 months of this year due to exceptionally high prices in the spring and early summer. Orange prices declined substantially this year--about one-third--causing a reduction in receipts.

For all of 1965, Government payments to farmers are expected to be around $2.4 billion compared with $2.2 billion in 1964. Payments under the Feed Grain and Cotton Programs are running well above last year's rate.

Production expenses through the first 3 quarters were running at an annual rate of $30 billion, up about $3/4 billion from the 1964 rate. The index of prices paid for production items, interest, taxes, and wage rates was up about 3 percent. Prices paid for production items were well above a year earlier due mainly to increases in prices paid for feed and feeder livestock. Farmers were also paying more for motor vehicles and farm machinery. Prices of buildings and fencing materials also showed slight increases. Farm real estate tax rates and interest rose again, and farm wage rates increased more than usual.

Realized gross farm income in the first 3 quarters was running at an annual rate of almost $44 billion, up sharply from January-September 1964. With gross income rising faster than expenses, realized net farm income through September was at an annual rate of $13.9 billion, compared with the $12.9 billion a year earlier.

Net income realized per farm for 1965 probably will be over $4,100 compared with the $3,727 last year. Per capita disposable personal income of the farm population from both farm and nonfarm sources will likely rise this year and be record high.

INCREASE IN FARM DEBT

Farm debt is increasing rapidly again this year. Total debt, excluding CCC loans, may rise $3.4 billion to reach $39.4 billion by the end of the year. This would be the fourth consecutive year in which the increase in total debt has been around $3 billion. The rise has been about 10 percent each year (table 3).

Farm-mortgage debt continues to increase in line with the trend of recent years. At midyear, non-real-estate farm debt was 6 percent higher than a year earlier (fig. 2), but indications are that this debt is now rising more rapidly and that by the end of the year it will be at least 7 percent above a year earlier.

Table 3.--Changes in farm debt, 1960-65 1/

Year	Debt outstanding Jan. 1			Increases in debt during year					
	Total	Real estate	Non-real-estate	Total	Real estate	Non-real-estate	Total 2/	Real estate	Non-real-estate
	Billion dollars			Billion dollars			Percent		
1960	23.6	12.1	11.5	1.2	0.7	0.5	5.0	6.1	3.8
1961	24.8	12.8	12.0	2.0	1.1	.9	8.2	8.4	7.9
1962	26.8	13.9	12.9	2.9	1.3	1.6	10.7	9.1	12.3
1963	29.7	15.2	14.5	3.3	1.6	1.7	11.2	10.8	11.7
1964	33.0	16.8	16.2	3.0	2.1	.9	9.2	12.4	5.8
1965	36.0	18.9	17.1	3.4	2.2	1.2	9.5	11.8	7.1
1966 3/	39.4	21.1	18.3						

1/ Excludes Commodity Credit Corporation loans.
2/ Computed from unrounded data.
3/ Preliminary estimate.

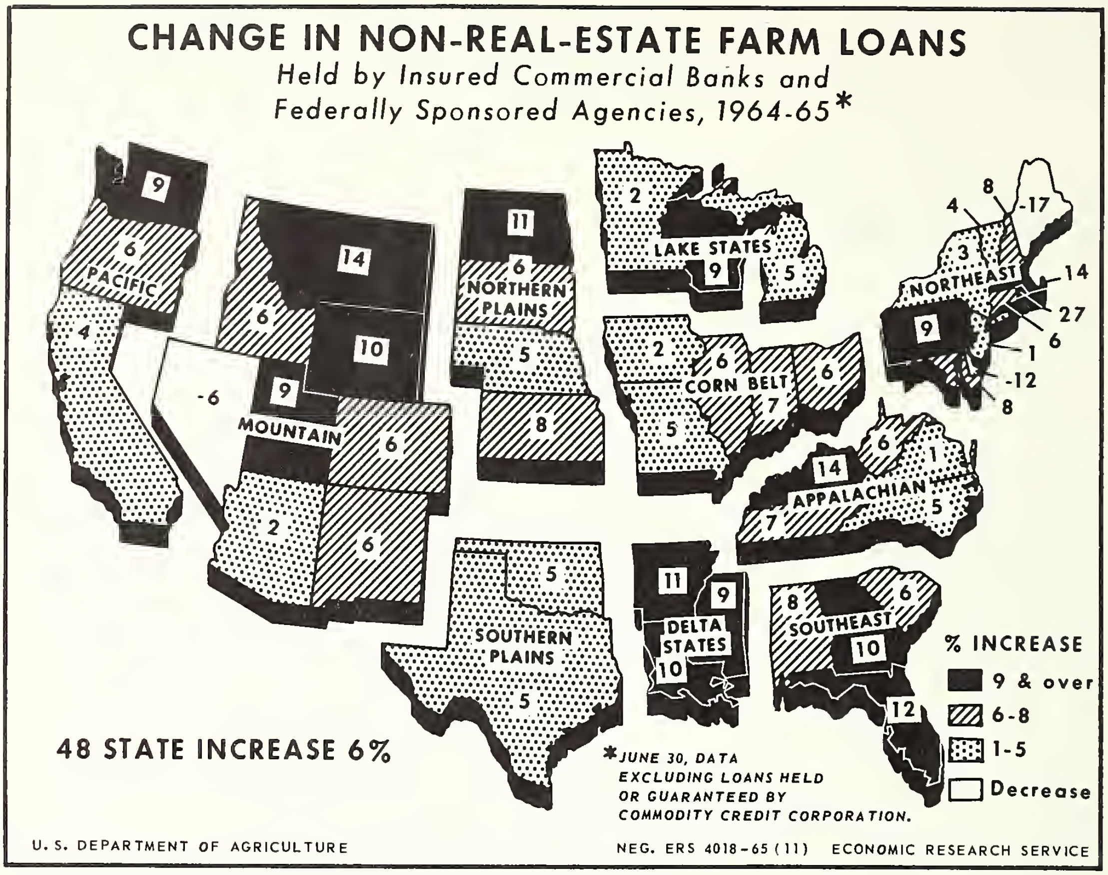


Figure 2

Early in 1965 the volume of loan advances by the production credit associations began to show larger increases over a year earlier. PCA's are important sources of short- and intermediate-term credit to farmers. New cash advances in the first quarter were 2 percent above a year earlier. In the second quarter, the margin above a year earlier reached 12 percent, and in the third quarter, 17 percent. The expanded loan volume has been greatest in the Omaha and Wichita Farm Credit Districts, where new borrowings had been slow during 1964. Cattle raising and feeding are important sources of income in these districts.

Much of the recovery in volume of non-real-estate lending probably reflects the widespread further improvement this year in cattle prices and incomes. The number of cattle on feed October 1 was 7 percent above a year earlier. Prices in recent months have averaged 15-20 percent higher than last year, and probably a considerably greater amount of financing is being used this year by cattle feeders than was used last fall. With prospects for favorable returns from cattle feeding, lenders are reported as more willing to lend than they were last year. Restraints imposed in 1964 by some lenders are reported as eased this year. In addition to the direct effect on lending volume of the larger investments in feeder cattle, the improved livestock prices and the favorable crop prospects have probably contributed to a general feeling of optimism of farmers and lenders. Farmers may be inclined to borrow and invest more heavily.

Renewals of existing PCA loans have increased less this year than new loans, and repayments have been strong in recent months. Other lenders are probably experiencing similar good repayments, and this is moderating the rate of increase in non-real-estate debt.

The condition of non-real-estate loans is probably a little stronger this year, although repayments were well maintained last year and there were few delinquencies. This continued strong condition of loans has been an important factor in the willingness of lenders to increase their farm loan operations.

A number of reporters mentioned increased use by farmers of merchant and dealer credit, or of credit from new sources. One reporter said:

> ". . . we hear more about farmer demand for credit at the point of sale. We see more cooperative corporations dealing with this problem. This could very well indicate that the farmer is seeking credit beyond that given to him by his regular credit associations which have based his needs and limits on established credit lines . . . ."

Another reporter commented:

> ". . . the high demand for credit has resulted in increased numbers of offices of high-rate financing companies being established . . . to lend to farmers. There has also been a modest increase in the number of storage buildings . . . and of big farm machinery obtained under leasing arrangements rather than purchase . . . ."

The volume of farm-mortgage recordings in the first half of 1965 was 11 percent greater than in the corresponding period a year earlier (fig. 3). This was only slightly below the increase in the first half of 1964 and continued the trend of recent years. One reporter, commenting on the debt situation, said the demand for mortgage credit had continued at a high level for a longer period than any other time in his years of experience.

There has been more variation than usual among lenders in their farm-mortgage lending volume this year. Only the Federal land banks showed a larger gain in recordings in the first half of 1965 than was shown last year--38 percent compared with 28 percent. The life insurance companies increased 8 percent compared with 28 percent; and commercial banks 5 percent in contrast to 12 percent. Loans by individuals rose only 1 percent compared with 5 percent a year earlier. Farmers Home Administration lending volume was smaller in the first half of 1965 because of a decline in insured loans.

Some reporters observed that the land banks and production credit associations were teaming up more commonly in their farm lending, thus providing a type of "one-stop" long-, short-, and intermediate-term loans. Interest rates on land bank loans in some areas were lower than those of other lenders. These may have been some factors in the sharper rise in lending by the land banks.

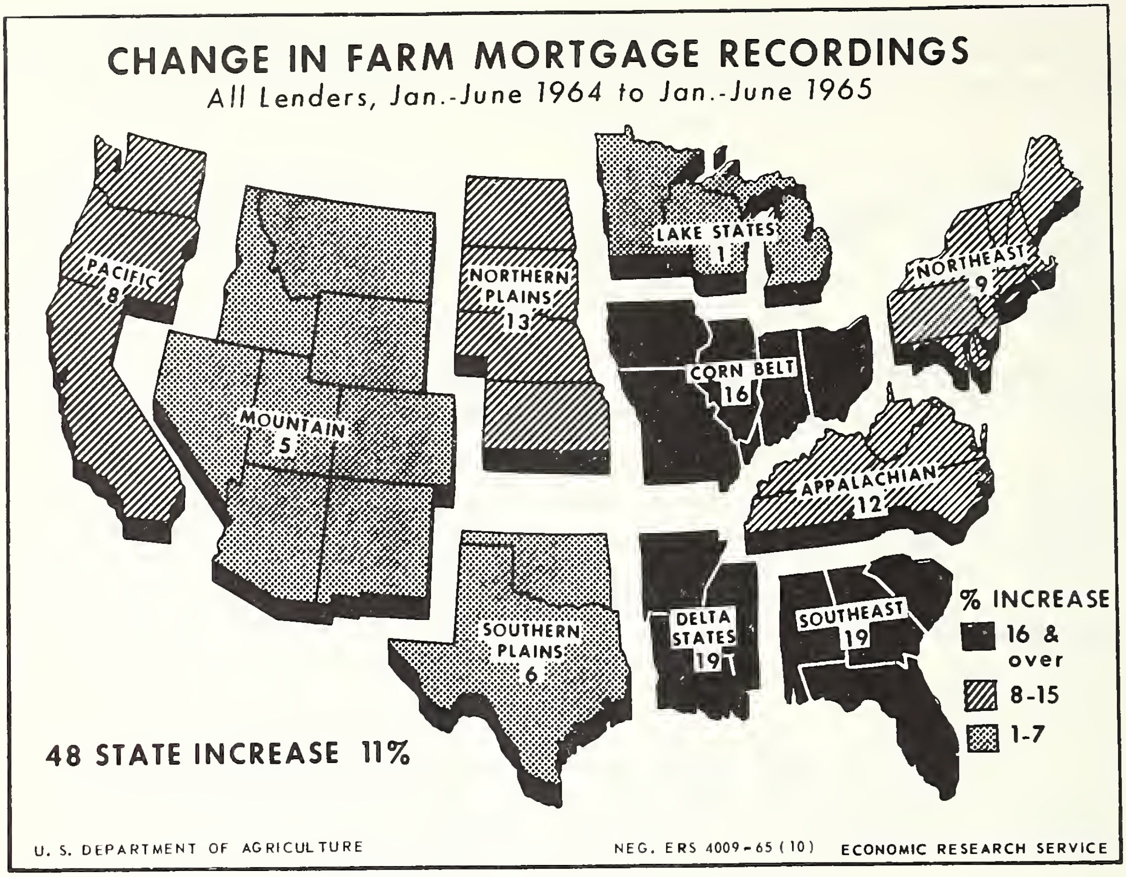


Figure 3

In the third quarter of 1965, loans of the land banks showed relatively less rise than in the first half of the year. "New money" advanced in the third quarter was up 10 percent from the third quarter of 1964, while the rate of increase in the first half of the year was 40 percent. If this slower rise in land bank lending continues, and other lenders do not increase their volume, the rise in mortgage debt will become less rapid.

Fears about the buildup in farm debt appear to have subsided this year. Last fall, several reporters thought the growth of debt reflected a deteriorating income-cost-asset position for many farmers. In reports this year, there has been frequent recognition of need for increased credit and many illustrations of the constructive uses made of this credit.

Conspicuous among the uses reported this year were the financing of investments to enlarge individual farming operations--especially the purchasing, stocking, and equipping of additional acreages, and the replacing of obsolete equipment with larger machines or machines better adapted to newer technologies. Land clearing or other improvements were frequently noted. Commonly mentioned was the financing of new houses or housing improvements.

A mid-1965 survey by the American Bankers Association indicated that fully half of the farm loan volume from commercial banks was owed by farmers who "have . . . made substantial adjustments--either enlargements or changes in the nature of the (farming) operation--during the past 5 years."

Related to the further increases in size of farm operating units, the increases in farm debt during the year continued to be principally the result of increases in loan amounts per borrower rather than increases in the number of borrowers. The dollar amount of farm-mortgage recordings in the first half of 1965 was 11 percent higher than a year earlier; the number of loans made was up 1 percent. Loans of production credit associations on June 30, 1965, were up 8 percent from a year earlier in total amount compared with an increase of only 1 percent in the number of borrowers.

Competition among lenders, and the partly related easing of lending terms, were noted less frequently in this year's reports. A number of reporters, however, indicated that mortgage loan amounts per acre were continuing to rise. Supplies of loanable funds remained large.

Among the changes in loan terms reported were further increases in the use of intermediate-term credit and longer terms on such loans. One reporter stated that some lenders had found borrowers made better progress on their loans when definite repayments were scheduled over a period of years, rather than when the more flexible repayment-renewal methods were used. Among the changes noted in mortgage loans was apparently some increase in the number of loans made with little or no repayments scheduled in the earliest years of the loan. Such loans may help borrowers when their need for credit is greatest, but unless the borrowers' debt repayment capacities are increasing, the risk of loss may be increased.

Altogether, 1965 was another year in which farmers continued to use larger amounts of credit. Most available statistics, and the majority of the individual reports indicate that most of this credit was put to good use by farmers in improving their farms and farming operations and maintaining or improving their earnings. Farmers will likely continue to borrow and invest heavily in 1966.

Open-Account Credit From Cooperatives

Farmers expenditures for feed, fertilizer, farm chemicals, seed, lime, repairs and operation of capital items, and miscellaneous farm operating expenses in 1965 will be from 1 to 2 percent above the $15.6 billion spent in 1964 for these goods and services. Outlays for such items now account for 50 to 55 percent of total farm production expenses. Often these items are purchased on "open account" by farmers--that is the farmer simply has the items charged to his account and will be billed for them later. Usually no interest is charged for such credit but sometimes discounts are given if the account is paid within a few days after purchase.

Insight into farmers use of open-account credit for such items was obtained from a survey of 11 farm supply cooperatives in October 1965. The reporting cooperatives were located in all regions of the 48 States except the Mountain States. Some operated regionally while others operated within

State boundaries. Total annual sales volume of the reporting firms was in excess of $1.2 billion in 1964. Their combined estimates indicated close to a 6 percent rise in sales in 1965. An expected 6 to 7 percent increase was reported for 1966. Their 1965 estimated sales were: Feed, $393 million, 32 percent of total sales; petroleum products, $291 million, 23 percent; fertilizer, $222 million, 20 percent; tires, batteries, and accessories, $68 million, 6 percent; seed, $39 million, 3 percent; agricultural chemicals, $36 million, 3 percent; all other, $165 million, 13 percent.

As in past years, use of open-account credit by farm operators trended higher in 1965. In total, the 11 respondents to the survey reported that almost 80 percent of their retail business was on open-account credit in 1964. They estimated that in 1965, such sales would be slightly over 81 percent of total volume. Ten of the 11 associations indicated that open-account credit sales accounted for two-thirds or more of their total sales volume (excluding installment credit sales); nearly half reported that 85 percent or more of their sales were open-account credit sales. The proportion of open-account credit sales (dollar volume) ranged from 55 percent to 90 percent of total volume for all respondents. The amount of this type of credit extended by cooperatives varies in accordance with both the credit policies of individual sellers and the differences in requirements of their customers.

Most of the respondents expected their credit business to be the same or greater in the coming year. However, at least 2 of the cooperatives have revised their credit systems and expect the volume of credit sales to decline in 1966. One of the firms planned to grant a discount for cash purchases, the other intended to add a service charge to account balances that were more than 30 days overdue.

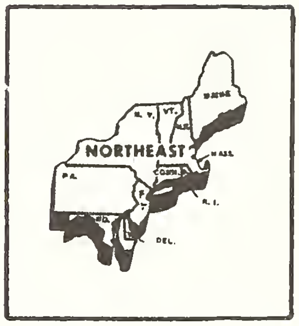
Favorable credit experience was indicated by the 6 respondents who provided information about the aging of their retail accounts. Each of these firms, all located in the Corn Belt and Southeast, said that the proportion of their retail volume classed as "current" was the same or greater in 1965 than in 1964. With a single exception they reported the proportion of accounts 31 days or more past due remained unchanged or declined from a year ago. Apparently there has been some improvement this year in the ability of farmers to meet their obligations when due.

REGIONAL SITUATION AND OUTLOOK

N O R T H E A S T

<u>Regional Highlights</u>

	1964	1965	Change
	(Million dollars)		(Percent)
Cash receipts from farm marketings, Jan.-Aug.			
Total	1,993	2,130	6.9
Crops	623	737	18.4
Livestock	1,370	1,393	1.6
Market value of farm real estate, March 1	8,012	8,375	4.5
Farm real estate debt, Jan. 1	1,057	1,172	10.8
Farm-mortgage recordings, Jan.-June	137	149	8.9
Non-real-estate loans held by reporting lenders, July 1	596	620	4.1



Cash receipts from farm marketings for the first 8 months of 1965 in the Northeast were nearly 7 percent above 1964. Only New Hampshire and New Jersey showed decreases, and these were relatively small. Improved returns to potato growers following several years of very low receipts highlighted the income situation. Aroostook County, Me., had the rare combination of a good 1964 crop and very good prices during the marketing season in early 1965. Total crop receipts in Maine through August 1965 were 90 percent above the same period in 1964. The potato crop harvested this fall, however, is being sold at lower prices. Incomes of broiler producers have been better this year than last because of higher production and increased prices. Egg prices were at record lows early in 1965 but are now substantially above a year ago.

The drought which has continued for several years in many sections of the Northeast may have had the greatest impact on dairying. Pastures have been inadequate, and the hay and corn crops have frequently been poor. A late-August frost also damaged corn in widespread areas of the region. As of October 8, eligible farmers in 136 of the 248 counties in the Northeast could buy feed grain at reduced cost under the USDA Livestock Feed Program, and in 81 counties they could graze livestock and harvest hay on land retired or diverted from crop production. Higher expenditures for feed concentrates and roughage reduced net incomes for dairymen. Milk production, however, has been generally maintained.

This was a good year for fruit and vegetable growers. The grape crop in Erie County, Pa., may be the largest on record. In some parts of the region, rains occurred when most needed. In other places, notably southern New Jersey, expensive irrigation was necessary to make good crops. Some growers invested for the first time in ponds and irrigation equipment.

In commenting on factors affecting net income, several reporters referred to high real estate taxes and to the high cost and scarcity of

competent labor. But the demand for workers in industry has also provided many farmers an opportunity for supplemental income.

Demand for credit has been heavy, particularly for expansion and modernization of operations. One insurance company reported long-term loans were in demand by dairy farmers to convert to free-stall barns, milking parlors, and automatic feeding. Drought has resulted in some loan renewals and extra borrowing to pay for feed and roughage. Generally, loan delinquencies are small, although they are up for some dairymen and othrs in drought areas. Unpaid operating loans were indicated for many New Jersey vegetable growers, especially those with large irrigation expenses. Broiler and potato producers in the region were able to reduce their delinquencies.

Credit for farmers continues to be generally available, and no important changes have occurred in lending policies or in interest rates. As in other regions, the general trend has been toward longer term, larger loans made necessary by the increasing size and investment in farms. One real estate lender commented that "the time is rapidly approaching when it will be the exception, rather than the rule, for a farmer to pay for an equipped and stocked farm in a lifetime." Some banks, especially country banks, have limited resources for such loans, and were reported to be tightening up in a few areas.

Most lenders reported that farm people had relatively few financial reserves. However, their living levels were being maintained or improved. Land values and equities continue to rise, and buildings and equipment generally are in good condition. Farmers frequently depend upon nonfarm income to supplement farm receipts. Demand for additional land remains strong and the supply continues limited. Many are selling out and leaving farming, especially operators of small dairy farms in northern New England and northern New York.

During the coming winter and spring, dairymen in dry areas will need to buy more than the usual amount of hay and grain. Recent rains, however, have broken the prolonged drought in some sections and the hope for 1966 is increased yields and lower costs. Prices of beef, pork, milk, and other products are not expected to change much from current levels. Potato and some poultry prices will probably be lower in the next few months than a year earlier, but good recent returns have helped these producers improve their debt situation. The major trends in 1966 will probably be the same as in recent years: fewer and larger farms, improvement and modernization of buildings, and increased use of equipment and machinery to improve labor productivity. Demand for credit will remain high and funds will be adequate, but probably at slightly higher interest rates.

Regional Highlights

	1964	1965	Change
	(Million dollars)		(Percent)
Cash receipts from farm marketings, Jan.-Aug. Total	2,173	2,288	5.3
Crops	555	570	2.8
Livestock and products	1,618	1,718	6.2
Market value of farm real estate, March 1	11,019	11,314	2.7
Farm real estate debt, Jan. 1	1,794	1,972	9.9
Farm-mortgage recordings, Jan.-June	179	180	.7
Non-real-estate loans held by reporting lenders, July 1	945	991	4.9

Farm receipts for the Lake States Region should be somewhat greater in 1965 than during 1964. Although costs have increased, farmers will likely end the year in an improved financial position. This improvement is expected to continue into 1966.

Favorable hog and cattle prices and increased sales of livestock and livestock products contributed to larger receipts and the strengthening of the financial position and outlook for livestock producers. Milk production is responding to better breeding and improved feeding. Slightly higher milk production and a little price improvement are resulting in higher incomes from dairy products than last year. However, poor pastures and feed shortages decreased midsummer milk production in southern Michigan. Dairy farmers in this area will probably have to buy hay and grain to maintain production this winter. Fall rains have greatly improved pastures. Feed supplies will generally be adequate elsehwere in the region.

Crop output will probably be above last year. However, cash and feed crops were damaged by drought this summer in Michigan. In Minnesota and Wisconsin, cold, wet, fall weather prevented timely harvesting of small grains and flax, and delayed maturity of row crops such as corn and soybeans. Heavy frosts late in September will reduce production in the northern two-thirds of Wisconsin and Minnesota, and in northern Michigan. Some corn planted for grain will now be harvested for silage. The more productive southern counties, however, generally were less affected. Sugar beet prospects improved with the fall rains, but dry bean quality was hurt.

Fruit prices are mostly unchanged or higher. Production is down from the last year's record. Tart cherry production was good, but this year's crop plus a heavy carryover from last year have combined to hold down prices and incomes. Some cherry producers are facing financial difficulties and will not replace older trees. Some plan to discontinue production.

Off-farm income is increasing as farm families seek higher incomes by working more off the farm. Off-farm employment opportunities are generally good due to a favorable economic situation. In northern areas of the Lake States Region, farming is becoming less important. Recreation was reported as an increasingly significant source of income.

Production costs continue increasing as prices of labor and other inputs continue upward. Capital expenditures have increased. Spending for more modern and larger equipment, automobiles, and trucks is greater than last year. The trend to narrow-row planting of row crops has provided added stimulus to equipment sales.

Land prices, responding to demand for farm enlargement and for nonfarm use, continue to increase, but not as fast as in other regions. Good farmland is reported to be selling quickly. Real estate taxes moved upward slightly.

Use of credit has increased, but the increase has been less than last year. Land purchases at slightly higher prices account for most of the mild increase in long-term credit. Long-term interest rates are unchanged. Short-term rates may be up slightly. Lending experience has been most favorable. Delinquencies and foreclosures are at low levels.

Living standards on farms are improving. Farmers are reported to be buying more appliances and other household items. In part, this is due to better farm incomes and also the growing importance of nonfarm income.

Savings and reserves of farmers will remain about the same in 1966 as this year. One respondent indicated that there is greater interest among farmers in buying life insurance policies.

C O R N B E L T

Regional Highlights

	1964	1965	Change
	(Million dollars)		(Percent)
Cash receipts from farm marketings, Jan.-Aug. Total	4,959	5,254	6.0
Crops	1,671	1,613	-3.5
Livestock and products	3,288	3,641	10.7
Market value of farm real estate, March 1	34,093	35,896	5.3
Farm real estate debt, January 1	3,490	3,829	9.7
Farm-mortgage recordings, Jan.-June	551	639	15.9
Non-real-estate loans held by reporting lenders, July 1	2,232	2,344	5.0

The net farm income of Corn Belt farmers is up considerably from last year. Receipts from crop marketings were down in the first 8 months because of reduced production in 1964. But receipts from livestock and livestock products were up sharply, and total receipts were higher. Moreover, because of favorable feeding margins, net returns to cattle feeders and hog producers have been much larger than in 1964. Marketings of crops this fall will be large, reflecting the record 1965 harvests.

Bumper crops of corn and soybeans this fall have set record yields per acre in nearly every State. Generally excellent weather, increased use of

fertilizer, improved machinery, and better farming methods have contributed to the increased yields. Corn yields this year for the 5 Corn Belt States are expected to average 86 bushels compared with 73 bushels for 1964, and 81 for 1963. However, spring planting was delayed and harvesting is running late this fall because of excessive rain and storms.

Corn production for the region was estimated on October 1 at 22 percent over last year and 7 percent above the prior record in 1963. Soybean production also was estimated to be 22 percent above last year.

Pasture conditions were reported the best in several years throughout most of the region. The only exceptions were in parts of southern Missouri, northern Iowa, and western Ohio because of midsummer drought.

The market value of farmland continued upward, rising 5 percent from March of last year to March of this year. Many lenders commented about the rising level. Few farms are for sale, but many farmers are seeking to buy additional acreage to enlarge their operations.

Farm real estate debt outstanding January 1, 1965, in the Corn Belt States, increased 10 percent over a year earlier. The volume of farm-mortgage loans recorded by all lenders was 16 percent larger in the first half of 1965 than in the first half of 1964. The trend has been toward larger real estate loans, with higher loan-to-value ratios, longer term, and smaller annual repayment requirements.

Non-real-estate debt rose 5 percent in the Corn Belt States in the 12 months ended June 1965. There was an 8-percent increase for the first half of 1965, up from 6 percent a year earlier. One reason for the larger rise this year was the increase of 5 percent over a year earlier in the number of cattle on feed July 1, 1965. Prices of feeder cattle have also been running at a higher level. But feeding margins were high enough to encourage more cattle feeding and thus increased use of borrowed capital.

Most lenders report an ample supply of credit available to Corn Belt farmers this year, with strong competition among lenders for good loans. Several lenders indicated that their farm loans were in a stronger position this fall. They reported placing more emphasis on management ability than in previous years. Others reported making larger loans with more flexible terms, especially to farm operators who were the better managers.

Farm purchases of machinery are at a high level this fall, after a slow start early in the year. With record crops and numerous reports of a short supply of labor, farmers have purchased increased numbers of larger tractors and larger items of other farm machinery. There have been increased farm expenditures for new kinds of narrower 30-inch row equipment that permit closer planting and contribute to higher yields. An increasing number of Corn Belt farmers were reported to be leasing, rather than purchasing, some big farm machinery.

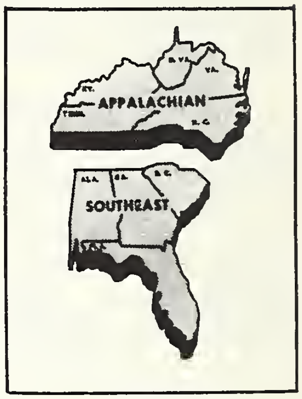
Demand for farm credit is expected to continue upward as Corn Belt farm operators invest further to increase their efficiency. Both real estate and non-real-estate farm debt will probably continue up in 1966. Better incomes and further increases in land values will permit equities of some farmers to

increase but overall, with the large amount of borrowing, the equity-to-asset ratio will probably continue declining slowly, as it has been the past few years.

APPALACHIAN AND SOUTHEAST

Regional Highlights

	1964	1965	Change
	(Million dollars)		(Percent)
Cash receipts from farm marketings, Jan.-Aug. Total	2,995	3,131	4.5
Crops	1,433	1,467	2.4
Livestock and products	1,562	1,664	6.5
Market value of farm real estate, March 1	20,940	22,351	6.7
Farm real estate debt, Jan. 1	2,305	2,601	12.8
Farm-mortgage recordings, Jan.-June	430	494	15.0
Non-real-estate loans held by reporting lenders, July 1	1,279	1,382	8.0



The financial position of Appalachian and Southeastern Region farmers improved somewhat in 1965, and the outlook is favorable for 1966.

Receipts from crop sales are up slightly. Weather has been generally favorable. Perhaps the most important exception was excessive rainfall in the North Carolina and Virginia cotton areas. This resulted in heavy boll weevil infestation and a reduced cotton crop. Income from the sale of cotton is down. However, cotton growers who held acreage within their domestic allotments will also receive direct Government payments. Production of flue-cured tobacco is down substantially. Under the new acreage-poundage program adopted for 1965 limits were placed on the number of pounds that growers could market. This decreased production will probably not be fully offset by better tobacco quality and higher prices.

Yields of most other crops are expected to be considerably above last year. Production of soybeans, corn, and peanuts are all substantially improved. Income from these crops, along with sizable increases in income from pecans, peaches and other crops, will increase receipts from all crops over last year.

Sugarcane and vegetables in Florida were damaged by severe freezes. Sugar prices are lower, and income from sugarcane will be reduced. Although citrus production increased for 1965, prices declined and income will not improve significantly.

Cash receipts from livestock and livestock products for the first 8 months of 1965 were up significantly from a year earlier. This improved situation should continue into 1966. Cattle prices are higher, and marketings of cattle will be as large as last year. With production of pork down somewhat, prices are much improved. Turkey and broiler production is up significantly, and prices are up. Milk prices are not greatly different from a year ago, but dairy production may be down somewhat.

Government payments probably will show little overall change this year. Important benefits may accrue to persons in these regions under the Economic Opportunities Act. The Appalachian Regional Development Act should also provide an economic stimulus.

Production expenses, including labor costs, continued to edge upward as nonfarm inputs were used in greater proportions. Prices were higher for nonfarm inputs such as machinery, fertilizer and insecticides as well as for some farm-produced-inputs. The most efficient farmers may have increased their savings and reserves. Reserves of others are unchanged or down slightly. Expenditures for maintenance of farm buildings and equipment are reported to be little changed from last year.

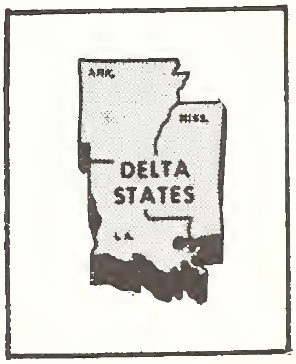
Many farmers who would otherwise be underemployed continue to obtain part-time nonfarm employment. The migration from agriculture--particularly by young people--continues. With substantial income from nonfarm employment and higher farm income, farm people are reported to be improving their level of living. Social Security benefits are important to many older people in these regions.

Demand for credit has been strong, and there is sufficient money for lending. As a result, total farm debt is increasing. Available credit and strong demand for land have combined to continue the long-term upward movement of land prices. Real estate debts are increasing both because of land buying and because some farmers are refinancing short-term loans to stretch out their repayment periods. Non-real-estate debts were continuing to increase as a result of greater borrowing for production expenses and equipment. Interest rates are generally unchanged. Favorable lending experience is reported in most areas. Delinquencies and foreclosures are uncommon, and repayments are ahead of last year. Some financial problems were again reported among citrus growers who were hit hard by the December 1962 freeze.

D E L T A   S T A T E S

Regional Highlights

	1964 (Million dollars)	1965 (Million dollars)	Change (Percent)
Cash receipts from farm marketings, Jan.-Aug. Total	810	859	6.1
Crops	312	323	3.4
Livestock and products	498	536	7.8
Market value of farm real estate, March 1	6,742	7,179	6.5
Farm real estate debt, Jan. 1	837	964	15.2
Farm-mortgage recordings, Jan.-June	187	223	19.0
Non-real-estate loans held by reporting lenders, July 1	553	610	10.2



The Delta Region economy appears to be expanding rapidly. Farmers continued to improve their financial position this year. During the first 8 months of 1965, gross income increased sharply.

Receipts from livestock are particularly favorable due to larger marketings at higher prices. Broiler production is up, and prices are slightly higher than a year ago.

Cotton production likely will be a little lower than last year. Cotton quality was hurt by hurricane "Betsy." Prices are lower due to lower support prices. However, farmers who held acreage within their domestic allotment will receive direct payments.

Sugarcane tonnage was reduced considerably by the hurricane. Favorable post-hurricane weather will result in some straightening of the stalks and should ease mechanical harvesting, but harvesting costs will be high.

Soybean production is increasing rapidly due to expanded acreage and higher yields. Prices received for the 1965 crop will be lower than last year. Better fall-moisture conditions have improved production prospects, which were already high.

Rice production, based on October 1 indications, is well above last year. There are some reports of shattering, but rice harvesting was well along before the storm hit the region, and output may set a record. Rice prices are down slightly, but income should be as good or better than last year. The corn crop looks favorable despite some storm damage. Harvesting may be slowed because of down corn.

The market value of farm real estate on March 1, 1965, was up 6.5 percent from a year earlier. Farm operators are spending more for land, land improvements, and for new and heavier machines. Equipment continues to be upgraded.

Non-real-estate farm loans outstanding on July 1, 1965, were up over 10 percent from last year. Farm-mortgage recordings were up 19 percent during the first half of 1965. Credit use is expanding rapidly, lending apparently has been liberal, and interest rates are stable. Few difficult debt situations are evident. Loan repayment is good, and delinquencies are few. Farmers' savings do not appear to have changed greatly. Money not needed for current operating expenses or family living is being reinvested in capital improvements.

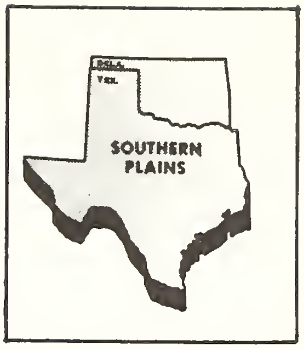
Farm production costs are increasing. In part, this is due to higher wages. Higher labor costs are also providing an added stimulus to further mechanization.

Living levels for many farm people in the region are improving. Government payments will probably total slightly more than last year, and Social Security payments remain an important source of income.

S O U T H E R N   P L A I N S

Regional Highlights

	1964	1965	Change
	(Million dollars)		(Percent)
Cash receipts from farm marketings, Jan.-Aug. Total	1,709	1,828	7.0
Crops	798	847	6.1
Livestock	911	981	7.7
Market value of farm real estate, March 1	19,316	20,835	7.9
Farm real estate debt, Jan. 1	1,596	1,848	15.8
Farm-mortgage recordings, Jan.-June	326	345	5.8
Non-real-estate loans held by reporting lenders, July 1	1,177	1,235	4.9



Southern Plains crop production was above last year and better than average. Wheat production was up one-third. Grain sorghum production was up one-fourth. The Texas rice harvest was up 6 percent. Cotton yields were up, and production exceeded that of 1964 by almost 15 percent, although acreage was reduced. Production of all hay increased 10 percent. Pasture condition as of October 1, 1965, was generally much improved over 1964 but still slightly below average.

The improvement in pasture conditions and hay production, along with the increase in livestock prices, have brightened the prospects of ranchers and livestock feeders. Feeder calves are being grazed longer, and selling weights are heavier than in the drought year of 1964.

The financial condition of farmers and ranchers in the Southern Plains apparently is moderately stronger than a year earlier. Increased crop output and the livestock price rise have resulted in greater cash receipts from farming. Continuation and in some sections increases of off-farm employment, help to maintain and raise the level of living of farmers. However, opportunities for off-farm employment, in some localities, aggravate the already general shortage of farm labor.

The demand for short-term, intermediate-term, and long-term credit will continue strong. Rising costs of production, due mainly to the use of more purchased inputs, will sustain the need for short-term credit.

The need for intermediate-term loans to finance purchases of farm machinery and equipment is increasing and is expected to gain further during the rest of 1965 and into 1966. Many farmers who had to delay machinery and farm-improvement expenditures because of unfavorable conditions the past few years will now be able to make these expenditures. Also, as one reporter put it, "Trading to increase the size of equipment is probably as much a factor as numbers purchased. Tightness of the labor supply in some instances has encouraged purchases of larger equipment to reduce the need for workers . . . ."

Long-term loans to finance capital improvements and acquisition of farmland will continue in high demand.

Loanable funds will likely be adequate. There were reports, however, that availability of short-term loans may be inadequate in some areas where farm incomes have been low for several consecutive years.

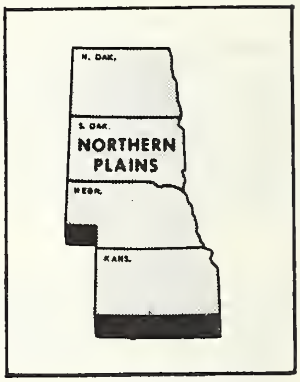
Interest rates are expected to remain the same or possibly increase slightly.

Reporters frequently mentioned that as money became less plentiful and as the average size of loan increased, farmers who showed good management ability and who kept adequate farm records would be more likely to obtain adequate financing.

N O R T H E R N   P L A I N S

Regional Highlights

	1964	1965	Change
	(Million dollars)		(Percent)
Cash receipts from farm marketings, Jan.-Aug. Total	2,405	2,518	4.7
Crops	895	853	-4.7
Livestock	1,510	1,665	10.3
Market value of farm real estate, March 1	15,921	16,834	5.7
Farm real estate debt, Jan. 1	1,436	1,630	13.5
Farm-mortgage recordings, Jan.-June	206	233	13.0
Non-real-estate loans held by reporting lenders, July 1	1,485	1,588	6.9



Crop production in the Northern Plains is up from last year. As of October 1, wheat production was estimated to be up about 9 percent and much above average. Wheat production in Nebraska and South Dakota was down but harvests in Kansas and North Dakota were larger than in 1964. Excessive rains in North Dakota during August and September delayed the harvest of much of the wheat and flaxseed for several weeks, especially in the northern half of the State. After harvest was resumed early in October, grades and yields were somewhat lower than had been expected earlier in the season. However, cash receipts from wheat and flaxseed in North Dakota are still expected to be greater than in 1964 since the larger harvests this year are expected to more than offset the lower prices received for the poorer quality crops.

Expectations for 1966 crops and pastures are optimistic due to the improved fall soil moisture situation. The good supply of hay and the improved pastures and grazing will allow ranchers to carry larger numbers of cattle into 1966.

Although this year's crops are improved, cash receipts from crops sold during the first 8 months of 1965 declined 4.7 percent from a year earlier. Some of this drop can be attributed to the smaller than usual production of feed grains in 1964 and the resulting reduced marketings early this year. In addition, the poor condition of pastures and ranges in the fall and winter of

1964-65 caused farmers to feed more of their grain and sell less. Whether cash receipts from crops during all of 1965 will equal or exceed 1964 will depend largely on what farmers do with their crops. If crops are stored until some time in 1966 or are fed to livestock, cash receipts from crops will probably lag behind those of 1964. However, regardless of the timing of receipts, the larger harvests this year will materially improve farm incomes.

Farm cash receipts from livestock and livestock products in the Northern Plains exceed those from crops, except in North Dakota. Nebraska and Kansas are important cattle and hog feeding States. South Dakota, North Dakota, and western Nebraska are important suppliers of feeder cattle and lambs. Feeder cattle reportedly are moving to feedlots later than they did in 1964. Improved pastures are allowing ranchers to keep calves on pasture longer and to sell at heavier weights. Prices per pound also are higher than in 1964.

The financial condition of farmers and ranchers generally is better than for several years. The increase in livestock prices and the higher production of crops with fairly stable prices are primarily responsible. Exceptions are generally limited to areas where weather conditions have been severe.

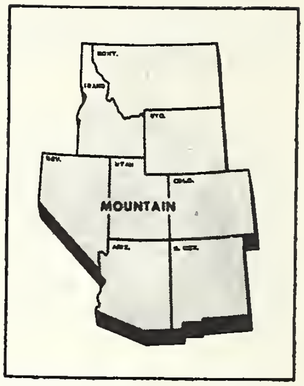
Lenders indicate that the demand for credit will continue strong and is likely to increase. Farmers are having to use more purchased inputs. Purchases of equipment and machinery for replacements of labor and of worn-out items are expected to continue or increase. Reporters stated that many farmers are turning to larger and more machinery to keep production high and as efficient as possible. The call for more intermediate-term credit is, therefore, expected to be strong.

The purchase of farmland, mostly by operators expanding the size of their business, is expected to continue with the accompanying demand for long-term credit. The supply of loanable funds is expected to be adequate. Rates of interest may rise slightly. Lenders reported good repayments on all types of loans and few delinquencies.

Practically all reporters mentioned the increased importance of good management ability as a requirement for obtaining adequate farm financing. They also mentioned that the lack of managerial ability, poor planning, and trying to operate on farms of inadequate size were the more usual causes of poor financial condition of farmers.

Regional Highlights

	1964	1965	Change
	(Million dollars)		(Percent)
Cash receipts from farm marketings, Jan.-Aug. Total	1,316	1,439	9.3
Crops	515	567	10.0
Livestock	801	872	8.9
Market value of farm real estate, March 1	13,012	13,490	3.7
Farm real estate debt, Jan. 1	1,591	1,815	14.1
Farm-mortgage recordings, Jan.-June	243	254	4.7
Non-real-estate loans held by reporting lenders, July 1	1,213	1,299	7.1



Cash receipts this year from the sale of crops and livestock in the Mountain region are expected to be up from 1964.

Crop production has increased. Wheat output is expected to be up about 8 percent and above average. Montana and Idaho account for most of the increase. Wheat prices are lower this year but this is somewhat offset by larger Government payments. Production of corn for grain has increased 11 percent, with Wyoming showing the only decline. A heavy freeze in September damaged most of the corn that was in an immature stage; it had to be cut for silage.

Grain sorghum production showed a large increase--51 percent greater than in 1964 and 49 percent above the 1959-64 average. Irish potato production is estimated to be 51 percent larger than the relatively small crop of 1964. Sugar beet production was down about 9 percent. Production of barley, oats, and hay increased. Cotton production continued to decline primarily because of reduced acreage, although yields went up. Expected production is down 4 percent from last year.

The condition of pastures as of October 1, 1965, was improved in every State over the relatively poor conditions last year. Following several years of drought, better soil moisture conditions, especially in Colorado and New Mexico, restored pastures to unusually good stands. The better soil moisture situation also is favorable to seeding of fall and winter crops and could aid spring planting and growth.

Livestock production in the Mountain Region consists mainly of range cattle and sheep. Feedlots are mostly in Colorado, Arizona, and Idaho.

The financial condition of farmers in the region is generally improved. Most livestock producers are in better shape because of the increase in livestock prices and the good conditions of pastures and ranges. Ranchers can hold calves longer and to heavier weights, and get the benefit of a higher price per pound than last year. They are also going into the winter season with good supplies of feed. Exceptions to this improved situation are areas of Colorado which suffered from flooding during the summer; dry spots in

New Mexico and Arizona; and parts of all the Mountain States which suffered damage from late-spring and early-fall frosts. Wheat yields in some parts of the region, especially Montana, were hurt by stem and leaf rust.

Production of crops with high labor requirements (fruits and vegetables) was generally reduced. Although prices for these crops were fairly steady, net income per acre will be lower than expected because of the higher cost of available labor and the costs of chemicals and machinery to take over some of the tasks previously done by hand. As better methods and machinery are developed, unit costs may be reduced.

With the use of more purchased inputs, operating costs will probably continue to increase. The greater use of commercial fertilizer and chemicals, higher cost of labor, investments in machinery to replace labor, and efforts to improve family living will all combine to push up the farmer's operating costs.

The demand for credit continues to increase. With the further decline in the number of farms and the growth in average size of farm, capital will be increasingly important. Farmers have not been able to increase their savings much; therefore, borrowed funds will have to make up a larger part of the additional capital needed by farmers.

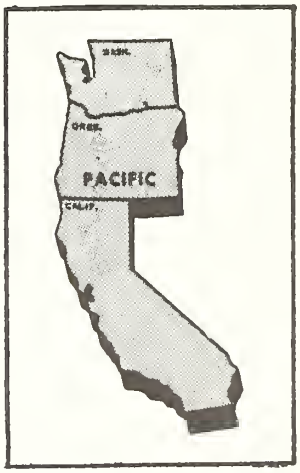
The supply of credit will be adequate; slightly higher interest rates are likely. Lenders are generally pleased with their loan repayment experience.

As always, some farmers are in financial trouble. There are many reasons, but as one reporter put it ". . . the farmers who have debt difficulty are usually poor managers, [or] have attempted to expand too rapidly, [or] probably the biggest reason, are trying to operate on an uneconomic-sized unit."

P A C I F I C

Regional Highlights

	1964 (Million dollars)	1965	Change (Percent)
Cash receipts from farm marketings, Jan.-Aug.			
Total	2,628	2,670	1.6
Crops	1,527	1,530	.3
Livestock	1,101	1,140	3.5
Market value of farm real estate, March 1	21,657	23,168	7.0
Farm real estate debt, Jan. 1	2,686	3,049	13.5
Farm-mortgage recordings, Jan.-June	296	319	8.0
Non-real-estate loans held by reporting lenders, July 1	1,192	1,248	4.7



Farm income in the Pacific States has generally improved this year, but there has been wide variations. Livestock producers, especially cattle feeders, benefited from higher prices. Prices for eggs, milk, barley, grain sorghum, and dry beans also improved. Lower prices were reported for wool, flaxseed,

and citrus. Below-normal temperatures and heavy rains during the growing season reduced crop yields in parts of California. Some orchardists in Washington suffered crop losses because of freeze damage last winter and spring. The peach and apricot crops were nearly complete failures and the pear crop was only half the 1964 production. Apple orchards also were damaged and the crop was reduced, but because of good quality and prices, growers are doing well.

Poor weather cut wheat yields in a few sections of the Northwest, but yields regionwide were very good. Much of the Palouse area of Washington had the best crop in history. The Gaines variety of wheat accounted for some of the increase in yields. Output of feed grains, potatoes, and grapes also increased.

Although overall farm production and gross income have been satisfactory in the Pacific region, rising costs have been a problem for many farmers. Larger outlays have been made for feeder cattle, feed, fertilizer, and labor. Profit margins have been narrow on many small farms, especially Grade B dairy farms. Nonfarm income has been higher than in 1964, however, and has helped keep small farms in operation.

Labor problems resulting from the end of the Bracero program have been most publicized in California. On the whole, respondents reported that crop losses caused by labor shortages were believed to be relatively small. Apprehension over the adequacy of the labor supply is reported to have decreased the acreage planted to truck crops, canning tomatoes, and other crops requiring considerable labor. Some growers had losses from poor quality crops, or their harvests were delayed because of inexperienced help. Also, labor has been more costly, and additional investment has been made to convert housing and facilities for domestic workers. The labor situation has accelerated the purchase of mechanical harvesting equipment, such as tomato pickers and tree shakers. The better managers reportedly were able to adjust and find adequate workers after the termination of the Bracero program. Those taking no action to recruit domestic workers had trouble, however, and failed to harvest some crops. The smaller row-crop farmers not relying on much extra help made out satisfactorily.

Loan repayments have been generally good except in localized areas where weather damaged crops. Cattle feeders made good progress in reducing last year's delinquencies. Some poultrymen and Grade B dairymen were having difficulty getting financed, but relatively few were in a difficult debt situation. Many received supplemental nonfarm income, and those liquidating usually had good equities and could clean up their debts. The expanding population, particularly in California, absorbs thousands of acres each year and is a factor in the strong upward pressure on land values.

Farm families were reported to be continuing to live well, with many enjoying levels comparable to their city friends. New homes and automobiles are frequently mentioned by reporters. Some small farmers, especially in Oregon and Washington, try to expand income by getting more land, planting specialty crops, or going into livestock production. Expenditures for equipment, some expensive, continue heavy.

The high level of expenditures has tended to reduce savings of farmers, but the better, established operators apparently maintain substantial reserves.

Much of the increased spending is financed by credit, and the demand for credit is heavy. Loans are usually available. Many mortgage lenders, such as insurance companies, are lending larger amounts for longer terms. In Oregon, savings and loan associations were believed to be making more loans to farm operators who had nonfarm income. Total farm-mortgage recordings in Oregon were more than a fourth higher in the first half of 1965 than in the same period of 1964. Some commercial banks whose funds were needed to meet the demand for operating loans were reported to be less interested in long-term loans. Apprehension over the California labor situation caused some restriction in operating credit in early 1965, but the situation subsequently eased. Interest rates are reported to have risen slightly in 1965.

The 1966 outlook for the Pacific region is for a continued high level of spending and investing, with a strong demand for credit. The adjustments resulting from the end of the Bracero program, particularly in California, will probably accelerate the use of credit to buy machinery. For example, it is estimated that an additional 500 to 600 mechanical tomato harvesters will be bought in 1966 at a cost of about $20,000 each. The cost of all equipment needed by a typical tomato grower to shift to mechanical harvesting ranges from $40,000 to $45,000. The same development will also speed the trend toward larger acreages and larger operating credit requirements. A minimum of 100 acres is believed necessary to justify the investment in tomato harvesting equipment.

Debts are expected to increase next year, but so are land values, resulting in little overall change in debt-asset relationships. Small operators will still be under a cost-income pressure; some will quit and others will find supplemental nonfarm income. Lenders' policies and rates will probably be about the same although the buildup in debts may cause a little more caution. The apparent belief, however, of some lenders in areas of burgeoning population is that rising land values will alleviate any problems caused by lending mistakes.

PUERTO RICO

A 2-year drought in southern Puerto Rico has reduced farm income on the island. Poor pastures and feed shortages have cut output and increased costs of livestock and dairy producers. Drought and lower prices have resulted in an income drop for sugarcane growers. Tobacco production rose, but marketing allotments for 1965-66 have been reduced. Income from other crops has increased slightly.

The labor situation continues to present a problem for many farmers. High wages paid to construction and industrial workers have attracted labor from rural areas. This has raised labor costs and resulted in labor shortages, particularly during peak cultivation and harvest seasons.

The less favorable farm income situation has caused an increase in loan delinquencies and carryovers. Credit difficulties have been most pronounced for sugarcane growers and beef cattle producers. The supply of credit from private and Government sources remains adequate, but lender policies appear to have tightened somewhat. The Economic Opportunity Act offers a new source of credit to help low-income farm families develop both farm and nonfarm enterprices to improve their financial situations. The Commonwealth Government,

attempting to help farmers meet higher wage and other operating costs, has increased the subsidy and incentive payments to farmers.

Despite lower incomes for some farm operators, the per capita income of the entire population has kept growing at about 7 percent each year. Higher levels of living are evidenced by improved housing facilities in both urban and rural areas and the new services made available to rural families.

Moisture conditions have greatly improved in recent months and the outlook is for higher production. Sugarcane growers, however, are faced with a longer run adjustment problem. Costs are increasing and yields are low, partly because of the slow rate of mechanization. Competition from other sugar-producing areas is strong.

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